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HIGHLIGHTS OF A GAO FORUM

The Future of the Defined Benefit System and the Pension Benefit Guaranty Corporation

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Highlights

Highlights of GAO-05-578SP.

Why GAO Convened This Forum

Employer-sponsored defined benefit pension plans face unprecedented challenges in the midst of significant changes in our nation's retirement landscape. Many defined benefit plans and the federal agency that insures them, the Pension Benefit Guaranty Corporation (PBGC), have accumulated large and growing deficits that threaten their survival. Meanwhile, the percentage of American workers covered by defined benefit plans has been declining for about 30 years, reflecting a movement toward defined contribution plans (e.g., 401(k) plans) and perhaps fundamental changes in how our society thinks about who should bear responsibility and risk for the retirement income security of American workers. It is imperative that policymakers address not only the challenges facing the defined benefit system and the PBGC, but also consider broader questions about overall retirement income policy.

To address these issues, GAO convened a diverse group of knowledgeable individuals who have been influential in shaping the defined benefit pensions debate over the years. Participants included government officials, researchers, accounting experts, actuaries, plan sponsor and employee group representatives, and members of the investment community.

www.gao.gov/cgi-bin/getrpt?GAO-05-578SP.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

What Participants Said

Forum participants debated both the specifics of potential changes to the regulations governing America's defined benefit pension system and broader ideas about how policymakers should address retirement income security. There were varying levels of agreement on the following statements:

- Current pension funding rules do not adequately ensure sound funding in plans that are at the greatest risk of termination, and the federal government needs to do more to hold employers accountable for the benefit promises they make.
- Addressing deficiencies in the pension funding rules would be more effective and more important than reforming the PBGC premium structure, since policymakers should focus on getting employers to fulfill the promises they make to employees.
- Greater pension funding flexibility could help maintain adequate pension funding and remove disincentives that have stopped plan sponsors from contributing more to their plans in the past.
- PBGC's premium structure should better reflect the risk that a pension plan presents to the solvency of PBGC's pension insurance program.
- Improvements should be made to the transparency and timeliness of pension plan financial information that is reported to plan participants, regulators, and those who invest in the plan sponsor's stocks and bonds.
- Any reforms of pension funding rules and premium structures would be easier to achieve by separately addressing "legacy costs"—the costs from terminated and currently underfunded defined benefit plans.
- Although the traditional defined benefit system has been in retreat for about 30 years, this trend might be halted if policymakers would clarify the legal ambiguities surrounding cash balance and other hybrid plans.
- Rather than focusing on promoting certain types of pension plans, policymakers should identify and encourage those features of pension plans (both defined benefit and defined contribution) that are most likely to provide sufficient income security for American retirees.